

more of federal (non-Medi-Cal) funds subvended from the Department. **This requirement remains the same for FY 1995-96 audit reports.** Counties should make sure to request two copies of the applicable reports from providers. We are required to send the second copy to the U.S. Department of the Commerce, Bureau of Census, the designated federal clearinghouse for receipt of OMB Circular A-133 audit reports.

Although OMB allowed the \$250,000 audit threshold for FY 1995-96 audit reports, this does not waive either the Department of Alcohol and Drug Program's or the county's monitoring responsibilities. Therefore, we require submission of one copy of any single audit, financial related, or program specific audit reports that have been completed. In addition, all valid financial and management audit findings in these reports will be pursued and require corrective actions.

The \$250,000 audit threshold does not apply to direct contracts. The state regulations for direct contracts require audits for recipients of \$25,000 or more in financial assistance, federal and/or state funds, or both. Direct contractors receiving over \$100,000 in federal funds will be required to submit two copies of their reports.

Compliance Requirements

In last year's reminder letter dated June 18, 1996, ADP #96-31, we discussed the forthcoming development of a comprehensive audit guide for the various funding requirements and restrictions for federal funding sources. We have been in discussions with OMB regarding this audit guide specific to our funding. The OMB Circular A-133 and Circular A-122 analysts have both indicated that sometime in 1997 they will issue a revised compliance supplement that reflects the changes in P.L. 104-156 and Circular A-133. They have assured us it will be detailed and very program specific relative to federal funding requirements and restrictions.

Therefore, we are not sending our comprehensive audit guide until we receive OMB's revised compliance supplement. We will review the supplement to determine if it includes all relevant criteria. If it does, then we will send it out as an addendum to the reminder letter. However, if it does not address all of our program specific funding requirements and restrictions, then we may add applicable sections of our guide and include these as additional attachments with OMB's supplement.

Single Audit Act Amendments of 1996 (P.L. 104-156)

On July 5, 1996, President Clinton signed into law the Single Audit Act Amendments of 1996 (P.L. 104-156). The statute **applies to audits of fiscal years beginning on or after July 1, 1996**, and makes numerous changes to the single audit process.

The new law:

! Raises the audit threshold;

- ! Authorizes the OMB to establish a risk-based approach to determining major programs;
- ! Requires auditors to provide a summary report;
- ! Shortens the report submission deadline;
- ! Brings universities and other nonprofit organizations under the Single Audit Act; and
- ! Requires that fifty (50) percent of federal expenditures be covered in an audit.

Revisions to OMB Circular A-133

Attached is the OMB Circular A-133 revision of April 22, 1996. The circular was revised to coincide with the federal government's intent to overhaul single audit policy with P.L. 104-156. The OMB's long term goal is to combine into one circular the audit requirements of Circular A-133 and Circular A-128, Audits of State and Local Governments, and obtain consistency between audits of state and local governments and non-profit organizations.

The revised circular emphasizes targeting audit resources to areas of greater risk, getting better information from the audit process, and freeing up some federal funds to be used for program purposes.

To accomplish this, OMB made numerous changes to the circular:

- ! Raised the audit threshold to \$300,000 or more in federal funds **expended** rather than **received**;
- ! Established a risk based auditing approach for determining and auditing those programs designated as "major" and "high risk";
- ! Addressed specific elements to include in the audit reporting package;
- ! Shortened the deadline for submitting audit reports from thirteen (13) months to nine (9);
- ! Required a Certificate of Audits signed by the auditee's chief executive officer or chief financial officer;
- ! Restricted on selection of auditor preparing indirect cost proposals; and
- ! Eased eligibility for program-specific audits, with more flexibility and specific guidance.

Most of the provisions in the revised circular are effective for fiscal years beginning on or after July 1, 1996. However, the nine month submission deadline and auditor selection will take effect after a two-year grace period.

Proposal for Additional Revisions to OMB Circular A-133

Please be aware that OMB is proposing additional revisions to Circular A-133 that, when coupled with the 1996 revision, will fully implement P.L. 104-156. The proposed revisions are expected to be final sometime in 1997.

Some of the proposed changes are:

- ! Creation of uniform audit requirements for all grant recipients by rescinding OMB Circular A-128, Audits of State and Local Governments.
- ! Disallowance of the costs of single audits of subrecipients expending less than \$300,000.

The proposal also makes additional nonstatutory changes that would clarify certain audit requirements. Examples of the nonstatutory changes include revising the information required in the schedule of findings and questioned costs, clarifying the auditor's responsibility for testing and reporting the allowableness of costs charged to certain cost pools, and clarifying auditor use of the risk-based approach in making major program determinations.

Monitoring Responsibilities of Counties

The counties have increased responsibility to monitor their subrecipients receiving less than \$250,000 in federal funds for FY 1995-96. Moreover, when the audit threshold is raised to \$300,000 or more beginning with FY 1996-97, the number of subrecipients requiring single audits will decrease. Therefore, counties will have additional responsibility to ensure that adequate monitoring systems of these subrecipients are in place.

In an effort to determine compliance with OMB A-133 requirements, we sent out a survey to all counties regarding their monitoring activities. Only 32 counties responded to the survey. We will be sending a second request to the counties who did not respond. We will be assessing the responses to determine if the systems in place adequately meet OMB A-133 requirements.

There are several options for monitoring subrecipients which the counties might consider. The following options would be acceptable to OMB in meeting county monitoring objectives, and would allow counties to charge federal grants for the cost of limited scope audits and other monitoring procedures, such as on-site visits, reviews of documentation supporting requests for reimbursement, audits of financial statements and/or specific compliance areas.

! Provide On-site Monitoring at Subrecipient Level

- 1) Ensure the reviewer has a checklist or program to follow focusing on compliance and controls over compliance areas.
- 2) The reviewer makes site visits at the subrecipient's location(s).
- 3) The reviewer documents the site visits to substantiate that monitoring has occurred.
- 4) All findings noted during the on-site monitoring should be handled in the same manner as any exceptions noted during single audits or program specific audits.

! Review Supporting Documentation Submitted by Subrecipient

- 1) Counties can require subrecipients to submit with their requests for reimbursement copies of all invoices, canceled checks, and time sheets.
- 2) Prior to reimbursement, the reviewer should determine if the costs are allowable under the terms of the grant award.
- 3) Other documentation requested may include, but not be limited to, balance sheet information to determine positive or negative cash flow positions, cost allocation plans used for determining equitable distribution of costs among funding sources, and client eligibility determinations.

! Require Financial Statement Audits

- 1) Counties can require subrecipients to obtain a financial statement audit in accordance with Government Auditing Standards (GAS).
- 2) Counties can target specifically agreed upon compliance areas of subrecipients where monitoring may be warranted.
- 3) The auditor reports only those instances of non-compliance or reportable conditions that are direct and material to amounts in the financial statements.

It is our commitment to work with the counties in a cooperative effort to achieve compliance with OMB Circular A-133.

Please send the audit reports to:

Department of Alcohol and Drug Programs
Audit Services Branch
1700 K Street, Fifth Floor
Sacramento, CA 95814-4037
Attention: David Mar

If you have any questions regarding the above matter, please contact David Mar, Audit Services Branch, at (916) 324-2193.

Sincerely,

Desirée Wilson, Deputy Director
Division of Administration

Enclosure